FDIC State Profile

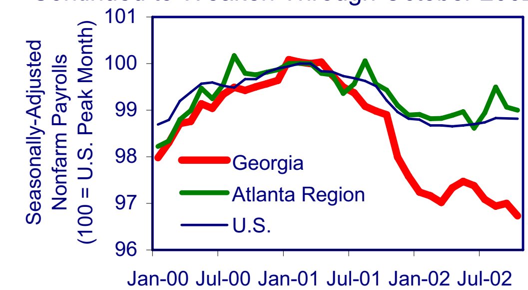
SPRING 2003

Georgia

The Georgia economy has suffered disproportionately compared to the nation during the recent recession, and economic conditions remain weak.

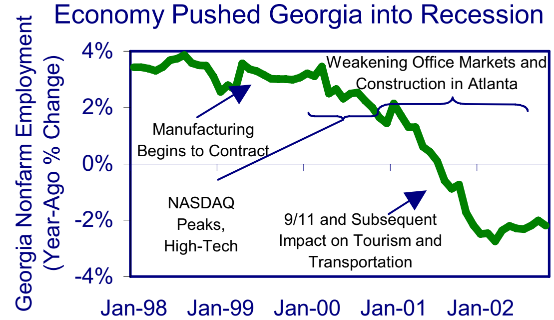
- The Georgia state economy lost more than 133,000 jobs between the cyclical peak in January 2001 and October 2002. Employment at the beginning of fourth quarter 2002 was down 2.2 percent from one year earlier—the worst performance in the nation. Economic forecasts suggest that layoff activity may increase by year-end, further weakening the economy.
- The state's prolonged decline into recession was the result of a series of economic shocks (see **Chart 2**). Employment growth peaked at nearly 4 percent in 1998. By mid-1999, however, the state's manufacturing sector began to contract, particularly as losses in traditional industries, such as textiles and apparel, in primarily non-metropolitan areas accelerated. This was followed in 2000 with the downturn in the NASDAQ stock exchange. Job losses in the state's high-tech industries cooled absorption in previously booming office markets in the Atlanta MSA where substantial amounts of new space continued to come on line. Even before 9/11, the combined effects of these shocks resulted in negative job growth. However, the aftermath of 9/11 adversely affected the state's transportation services and tourism industries, further exacerbating the state's economic conditions.
- Georgia's weak economy has negatively affected the state's budget where revenues continued to slump (see **Chart 3**). Local economies also have experienced declining revenues. For example, the City of Atlanta announced that nearly 300 employees will be laid off to help close the budget gap.
- The housing sector has yet to experience an overall downturn, although some segments of the housing market, particularly higher end homes in Atlanta, are characterized by declining rates of price appreciation. Growth in statewide home sales and home price appreciation in Atlanta moderated early in the recession but had increased by late in 2002.

Chart 1: Employment Conditions in Georgia Continued to Weaken Through October 2002



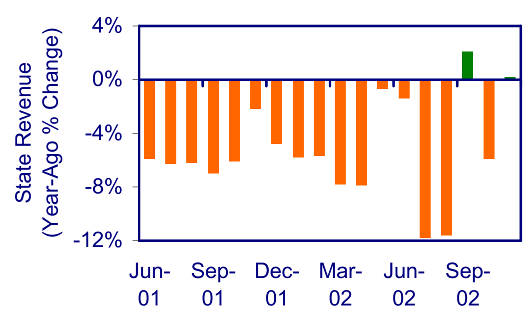
Source: Bureau of Labor Statistics/Haver Analytics

Chart 2: A Series of Four Shocks to the Economy Pushed Georgia into Recession



Source: Bureau of Labor Statistics/Haver Analytics

Chart 3: Georgia State Revenues Struggle to Recover

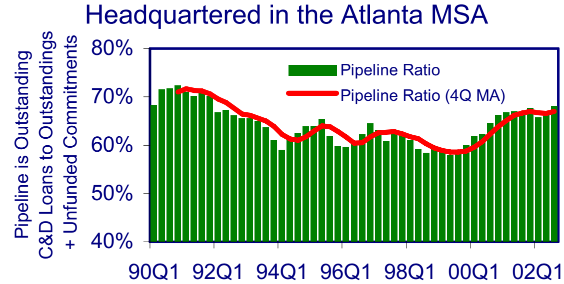


Source: Georgia Department of Revenue

Community banks headquartered in Georgia have reported sound conditions, but heightened balance sheet risk combined with economic weakness could lead to asset quality concerns.

- Overall performance among community banks headquartered in Georgia improved during the year ending September 30, 2002. On a merger adjusted basis, net income rose 18 percent after suffering negative growth a year ago. Higher net interest margins (NIMs) contributed to the increase.
- Although lowering funding costs, aggressive interest rate cuts by the Federal Reserve helped to compress margins in 2001 as core deposits slowly repriced at most community banks. Continued use of noncore funding, combined with the repricing of some core deposits in 2002, however, was instrumental in driving NIMs higher at these banks. NIMs rose 19 basis points to 4.52 percent, up from 4.33 percent in the year earlier period.
- Despite weak economic conditions during the year ended September 30, 2002, community bank loan portfolios grew 17 percent. The majority of this increase occurred in commercial real estate (CRE) loans, a segment that includes construction and development (C&D) and CRE loans. During this period, these loan categories combined for 32 percent of total assets, up from 29 percent a year ago.
- The majority of the growth in the CRE portfolio has occurred among community banks headquartered in the Atlanta MSA (representing 50 percent of C&D loans and 33 percent of CRE loans in the state). Nevertheless, the combination of substantial exposures with economic weakness has not resulted in asset quality problems. However, the significant level of loan growth could mask possible deterioration in asset quality.
- Despite the effects of the recession on the local economy and the relatively high level of C&D exposure, home price appreciation and income growth in the Atlanta area have diverged only slightly since 1998, a fact that may help support price levels in the current housing market. Recent increases in residential foreclosure rates across the Atlanta Region, however, may indicate how housing markets will perform in the near term. While this may not bode well for C&D loan performance, restructuring of outstanding debts and the use of credit lines has kept reported deterioration in asset quality to a minimum (see **Chart 4**).

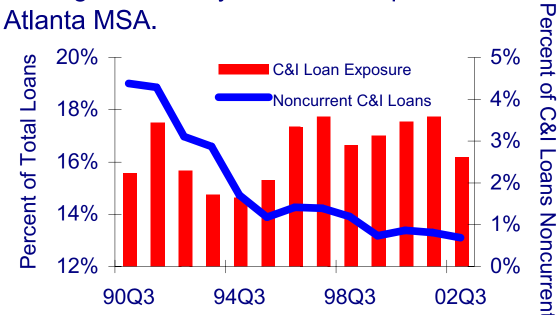
Chart 4: Use of Credit Lines Could Mask Asset Quality Problems Among Community Banks[1] Headquartered in the Atlanta MSA



[1]Commercial banks with assets less than $1 billion.
Source: Bank Call Reports, Data through 09-30-2002.

- Soft business profits and flat corporate spending have contributed to weakening among Atlanta area commercial and industrial (C&I) lenders. Charge-offs during the 12-month period ending September 30, 2002, were up slightly to 0.87 percent, 23 basis points higher than the previous quarter. Subsequently, noncurrent loan levels have declined during the year. Unlike CRE loan volume, which has continued to grow during this downturn, C&I loan exposure has dwindled because of the decline in business investment and spending (see **Chart 5**). As a result, C&I loans currently on the books probably are more seasoned and may be prone to deterioration at this stage in the cycle. An upward trend in noncurrent loan levels should be carefully monitored.

Chart 5: C&I Lending Exposures have Declined Among Community Banks Headquartered in the Atlanta MSA.



Source: Bank and Thrift Call Reports, September 30.

Georgia at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	307	308	320	322	329
Total Assets (in thousands)	43,833,399	42,657,191	41,272,874	41,821,201	38,737,193
New Institutions (# < 3 years)	35	32	37	30	21
New Institutions (# < 9 years)	77	63	56	47	51

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	8.98	8.85	9.26	9.26	9.42

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	1.89%	2.25%	2.05%	1.77%	2.04%
Past-Due and Nonaccrual > = 5%	35	40	31	37	52
ALLL/Total Loans (median %)	1.33%	1.35%	1.35%	1.43%	1.46%
ALLL/Noncurrent Loans (median multiple)	1.99	2.04	2.64	2.57	2.25
Net Loan Losses/Loans (aggregate)	0.26%	0.27%	0.25%	0.27%	0.36%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	27	21	19	19	17
Percent Unprofitable	8.79%	6.82%	5.94%	5.90%	5.17%
Return on Assets (median %)	1.18	1.07	1.32	1.28	1.30
25th Percentile	0.73	0.66	0.92	0.90	0.99
Net Interest Margin (median %)	4.48%	4.38%	4.93%	4.79%	4.91%
Yield on Earning Assets (median)	7.13%	8.66%	9.12%	8.57%	9.04%
Cost of Funding Earning Assets (median)	2.62%	4.19%	4.15%	3.75%	4.08%
Provisions to Avg. Assets (median)	0.27%	0.25%	0.23%	0.20%	0.20%
Noninterest Income to Avg. Assets (median)	0.78%	0.75%	0.78%	0.82%	0.83%
Overhead to Avg. Assets (median)	3.10%	3.18%	3.22%	3.24%	3.29%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	83.87%	81.77%	81.20%	78.39%	77.05%
Loans to Assets (median %)	71.72%	69.02%	68.77%	66.45%	66.56%
Brokered Deposits (# of Institutions)	94	68	57	37	32
Bro. Deps./Assets (median for above inst.)	5.99%	4.15%	3.73%	2.52%	3.62%
Noncore Funding to Assets (median)	21.44%	22.08%	20.67%	17.81%	16.40%
Core Funding to Assets (median)	67.24%	67.02%	68.28%	71.02%	72.67%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	242	243	256	255	265
National	53	55	58	60	58
State Member	12	10	6	7	6
S&L	0	0	0	0	0
Savings Bank	0	0	0	0	0
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	192	24,494,424	62.54%	55.88%
Atlanta GA	78	13,224,425	25.41%	30.17%
Macon GA	11	1,495,633	3.58%	3.41%
Savannah GA	7	871,975	2.28%	1.99%
Chattanooga TN-GA	7	975,780	2.28%	2.23%
Athens GA	6	1,500,811	1.95%	3.42%
Albany GA	3	434,386	0.98%	0.99%
Augusta-Aiken GA-SC	2	778,078	0.65%	1.78%
Columbus GA-AL	1	57,887	0.33%	0.13%